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SUBJECT: PUTIN INTERVENES TO MEET WORKERS' DEMANDS

1. (SBU) Summary. In a display of political drama broadcast on national television, Prime Minister Putin rode into the small town of Pikalyovo in Leningrad Oblast on June 4 and forced a resolution to a simmering labor dispute, meeting workers' demands and publicly humiliating the Leningrad Governor, local officials, and even his friend Oleg Deripaska in the process (although Deripaska ultimately emerged victorious in the commercial dispute that lay at the root of the labor unrest). Putin's surprise visit followed weeks of labor unrest that culminated in a demonstration June 2 when several hundred workers blocked a major highway in Leningrad Oblast for seven hours to demand payment of their salaries and the reopening of three enterprises in their single-industry town. The workers also threatened to block the railroad if authorities fail to fully resolve the situation by June 13. End Summary.

2. (SBU) Pikalyovo is a single-industry town of 20,000 residents in Leningrad Oblast and is the home of three interconnected enterprises. Two of the enterprises, Metakhim and Yevrotsement, produce cement from byproducts of the third plant, BazelTsement. BazelTsement is owned by billionaire Oleg Deripaska. The three enterprises employ about 10,000 residents of Pikalyovo.

3. (SBU) Serious problems emerged in the town in January 2009, when BazelTsement ceased operation, causing the other two enterprises to also cease production. According to official sources, there are now about 4,000 unemployed people in the town, but the real unemployment rate is likely twice that number. According to the leader of BazelTsement's labor union, the total amount of salary arrears is about \$1.3 million. By the middle of May, social tensions intensified as a local hot water plant shut down due to unpaid debts to the local gas supplier, leaving residential buildings, social institutions, and hospitals without hot water.

4. (SBU) Oblast and municipal authorities initially attempted to reduce tensions in the town by providing Pikalyovo's unemployed residents with jobs and housing in other oblast towns. According to labor union leaders, however, the jobs were low-paying and the housing consisted of single-occupant dormitory rooms. Additionally, the labor union objected to the authorities' efforts on the grounds that resettlement of people to other towns was not a viable long-term solution for the unemployed workers of Pikalyovo.

5. (SBU) On May 21, a group of residents stormed into a local administration building and demanded that city officials state what was being done to resolve the situation. On June 1, flyers appeared in the town calling people to a demonstration, and the message "Pikalyovo, Rise Up!" was painted on a factory chimney. When the local administration ordered the message painted over, workers at first refused to do so. According to press reports, the police attempted to discover the source of the flyers as well as the identity of the message's painters, but were unsuccessful.

6. (SBU) On the morning of June 2, workers went to the entrance of BazelTsement where they were met by town officials who were concerned about a possible protest. About 400 workers, indignant at the manner in which officials addressed them, decided to walk to the Vologda-Volkhov highway (about four miles away from Pikalyovo) and block traffic. Demonstrators blocked the highway for about seven hours, refusing to leave despite

appeals from both city officials and company representatives. In the early afternoon, the demonstrators received news that Leningrad Oblast Governor Valeriy Serdyukov signed a decree allocating about \$160,000 to pay part of the salary arrears and \$50,000 in social welfare aid.

¶7. (SBU) At the end of the rally, protesters signed a petition demanding renewed operation at all three factories in the town and that all salary arrears be paid. The petition stated that if their demands were not met by June 13, the workers would block the railroad connecting St. Petersburg to Vologda. Despite heavy police presence at the rally, nobody was detained.

¶8. (SBU) In a surprise development, Prime Minister Putin went to the town on June 4, and called the situation "intolerable." In front of the television cameras, Putin gathered the enterprise owners, local officials, Leningrad Oblast officials, including Governor Serdyukov and NW Russia PolPred Klebanov. Energetically chewing out all in the room, Putin instructed the owners to sign agreements to restart work and supply raw materials to one another. Deripaska was shown on television being summoned by Putin (who used the familiar form of the verb and a crooked finger) to sign the agreement. Putin then turned his ire onto the local and oblast officials present. While he did not single anyone out by name, he said that all involved had "run like cockroaches" when they heard the PM was on his way to Pikalyovo. He chastised officials for letting workers go without pay and instructed officials and factory owners to fix the problem "or we'll fix it without you." The PM then went outside into the crowd of cheering workers and told them that their back wages would be paid by the end of the day. Back in the meeting room, the cameras showed a clearly unhappy group of officials, including Governor Serdyukov. St Petersburg media reported rumors that Serdyukov had offered an undated letter of resignation the same day that Putin went to Pikalyovo. The oblast administration subsequently denied the rumors.

¶9. (SBU) To meet the wage arrearages, Deripaska reportedly had to take out a large loan, using his company as collateral, from the Russian bank VTB. Deripaska also signed an agreement with Fosagro to supply the necessary raw materials to Bazeltsement, thereby ensuring its continued ability to operate.

¶10. (SBU) Comment. The PM's dramatic intervention and resolution of Pikalyovo's labor problems both underscored the government's sense of concern over the possible social unrest sparked by the economic downturn - a theme we have heard in travel across our consular district - and set up a sharp contrast between the PM and the President, who was addressing CEOs and senior government officials at the posh St Petersburg International Economic Forum at the time. The message was unmistakable, with the PM, dressed casually in jeans and a sports jacket, publicly rebuking a room full of buttoned-up and clearly chagrined oblast and local officials and businessmen, including oligarch Deripaska, and then emerging to the cheers of the workers, as a man of action. It was perfectly choreographed political theater. End Comment.

GWALTNEY